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Approved For Release 2007/03/06 : CIA-RDP79T00975A027900010004-8

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LEBANON

Prime Minister Rashid Karami and Palestine Liberation Organization chairman Yasir Arafat agreed last night to enforce an immediate cease-fire in Lebanon. All major Lebanese and Palestinian political leaders had endorsed a cease-fire after the new government was formally installed early in the afternoon, but their action was widely disregarded, and heavy fighting continued in most areas of Beirut.

The agreement between Karami and Arafat was announced after the two met with Syrian Foreign Minister Khaddam, senior Lebanese army officers, and fedayeen leaders to discuss relations between Lebanon and the Palestinians. The agreement provides that the security forces will:

- move into all areas of the city;
- arrest snipers and kidnapers;
- exercise restraint "even when fired upon;"
- clear the streets of barricades and arms.

Public acceptance of this agreement by Arafat and by the Syrians suggests that the main Palestinian units will stay on the sidelines as the security services attempt to stamp out the continuing heavy fighting by radical leftists, small fedayeen groups, and Christians. If the large fedayeen groups were to abandon this policy of neutrality and come to the aid of the radicals, civil war would be certain.

The fighting Monday night was very heavy; the US embassy estimates that as many as 100 persons may have been killed. There is no evidence that the violence has taken an anti-American tone, although on June 30 a bomb did explode in the building in which the US embassy's marine security guards live. The continued intense firing probably is part of a last-ditch effort by Lebanese leftists and fedayeen radicals to draw the Lebanese army into the fray. George Habbash, the Libyan-supported head of the Marxist-oriented Popular Front for the Liberation of Palestine, reportedly is leading this attempt. The attempt could succeed.

According to press reports from Beirut, Karami and President Franjiyah may be considering a further political agreement to be implemented in case the cease-fire does not take hold. The agreement would both:

- replace the current commander of the army, as desired by Karami and his Muslim supporters;

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--engage the army in efforts to restore order, a move that right-wing Christians have long advocated.

Actively backed by Arafat and the Syrians, Karami is in a stronger position than most of his predecessors to overcome Muslim opposition to such moves. He can claim that, because he is defense minister as well as prime minister, he will be able to protect the Muslim and Palestinian communities against possible army excesses.

Karami's assumption of the defense portfolio is unusual. In recent years that post has not been given to Sunni Muslims, but has been reserved for members of the Christian or Druze communities. Karami apparently demanded the portfolio in return for allowing former president Camille Shamun, a non-Phalangist Christian, to become interior minister. The interior minister, who is responsible for internal security and Lebanese-Palestinian relations, is ordinarily a powerful figure in Lebanon. Given Karami's close ties to the fedayeen, however, Shamun may find himself upstaged.

Leaders of the Phalanges and Progressive Socialist parties, which have been left out of the cabinet, have so far offered no public comment on the new government. Press reports indicate, however, that Phalangist leader Pierre Jumayyil has promised Shamun that his followers will respect the cease-fire. Socialist leader Kamal Jumblatt signaled his displeasure with the new cabinet by departing Beirut for Cairo just before the new government was announced.

The new cabinet is likely to remain at its present size for two or three months, at most. The only cabinet formed without the Phalangists and the Socialists in recent years—that of June 1972—lasted less than a month.

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ISRAEL

Moderate members of Prime Minister Rabin's ruling coalition are urging him to consider making further concessions to Egypt in order to preserve Israel's close relationship with the US. One of the country's most respected commentators wrote yesterday that sources close to Rabin claim he is facing stronger pressure for concessions from within his coalition than from Washington.

The moderates' drive is spearheaded by the leftist Mapam Party, supported by the small Independent Liberal Party, and some leading members of Rabin's Labor Party. The latter reportedly include Foreign Minister Allon and Yitzhak Navon, chairman of the Knesset Foreign Affairs and Defense Committee, and a member of the Labor Party's conservative Rafi faction headed by Defense Minister Peres and his predecessor Moshe Dayan.

Navon told reporters, after a briefing of his committee by Rabin on the negotiations two days ago, that in his opinion Israel's security is more dependent on close ties to the US than on a "single mountaintop or one single place." Israel, he pointedly remarked, won wars in 1948, 1956, and 1967 without having possessed the Gidi and Mitla passes in the Sinai and was unable to prevent a war in 1973 when it did. Navon seemed to be echoing a major argument used by the moderates to buttress their case.

Some press reports suggest that Israeli advocates of greater flexibility are arguing that Tel Aviv should be guided by what it can get from the US—not Egypt—in return for giving up the passes completely. Specific objectives being discussed include:

- a two-year US economic aid commitment to Israel worth \$2 billion;
- military aid to meet the major part of Israel's requests over the next two years;
- a public announcement by the US administration to Congress that the US would support Tel Aviv's reaction to any Egyptian violation of the agreement.

Before making his next move, Rabin probably wants to get a better reading of just how far Washington and Cairo are prepared to go to meet Israeli demands in order to prevent another breakdown of the negotiations. An article two days ago, for instance, by a commentator close to Peres suggests that conservatives in the cabinet are arguing that there may be an element of bluff in the US position which could be smoked out by Tel Aviv's demand for further "clarifications" of the Egyptian position. The commentator claims Tel Aviv thinks Washington and Cairo

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are extremely anxious to make progress before Secretary Kissinger meets Soviet Foreign Minister Gromyko later this month, and before Egypt celebrates its Revolution Day on July 23 and the UN mandate in the Sinai expires on July 24.

As might be expected, the rightist Likud bloc has come out strongly in support of Israel retaining the eastern ends of the passes and has urged Rabin to stand firm. The Likud has also revived its call for a national unity government.

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TURKEY

Turkish opposition leader Bulent Ecevit used a party rally in Istanbul last Saturday to launch his most blistering attack so far on the government of Prime Minister Demirel.

Speaking before a crowd of 50,000, Ecevit accused the Nationalist Front government of trying to destroy Turkish democracy at home and of bowing to US pressures on Cyprus and on the arms embargo. He said the government could expect no cooperation from the opposition as long as it exploited sectarian differences and other domestic difficulties.

Ecevit charged that Demirel had failed to:

- Exploit Turkey's strategic geographic importance to force an end to the arms embargo. He had instead "bluffed and threatened" and taken no really decisive action.

- Outline the kind of solution he envisages for Cyprus, and as a result Turkey was isolated in the international community. Turkey should aim for the establishment of an independent "nonaligned" Cyprus, free of both Turkish and Greek armed forces.

- Articulate Turkish rights in the Aegean, leaving Turkey vulnerable to Greek demands.

Ecevit has now clearly thrown down the gauntlet to Demirel on the key issues of Cyprus, the Aegean, and the arms embargo. The truce between the government and the opposition on these issues, which had become increasingly uneasy, has now ended. Both sides have their eyes on senatorial elections this fall and possibly early general elections.

Ecevit's charges and the angry responses they have engendered from the government promise to throw more heat than light on the national debate on these vital issues. The increasingly partisan debate will also limit Demirel's flexibility in reacting to US moves on the arms embargo and other issues. He cannot afford to appear less determined than Ecevit in defending Turkey's interests.

Meanwhile, the violence between opposing student groups and political parties, which has plagued Turkey of late, was absent at Ecevit's rally, largely because of increased security measures.

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CSCE

Western negotiators in Geneva yesterday put off a response to Soviet demands that the European Security Conference be ended in July with a summit meeting in Helsinki; the West and the neutrals are insisting that agreement be reached first on military-related confidence-building measures and follow-up procedures for the conference. Even if agreement can be reached on the major issues, the summit could still founder on the special demands of smaller states like Malta, Romania, and Yugoslavia.

The Soviets, while admitting that a summit on July 22, as recently proposed by General Secretary Brezhnev, is no longer feasible, have launched a drive to commit the West to hold such a meeting before the end of July. The Finns, hosts for the prospective summit, reportedly have begun preparations for a four-day meeting beginning on July 28.

Negotiations have been proceeding at a faster pace, with sessions being held even on a weekend. Tentative agreement has been reached on several confidence-building measures—how much advance notice on military maneuvers and the numbers of troops involved, as well as the voluntary nature of these commitments. The West is hoping that Moscow will make another concession on the areas covered by this agreement. The West Germans yesterday for the first time indicated they could not agree to a date until the final version of the text relating to all confidence-building measures and to principles among states was agreed upon.

One obstacle to agreement is the Turkish demand for a clause requiring them to provide advance notice only for all military maneuvers on their northern and western boundaries. No one has supported this demand; the Greeks, too, have demanded similar treatment.

Substantial progress was made earlier this week on meetings to follow up the conference. Most delegates appear willing to support a solution along the lines of a recent Swedish proposal that senior officials meet—beginning in 1977—to assess how the conference's decisions have been implemented and to ensure the continuity of the multilateral process. This provision would keep alive the possibility of convening another conference.

Negotiations in other areas are proceeding. Accord was reached Monday on guidelines to the freer movement of ideas and people between East and West. The major powers reached agreement on a clause protecting Allied rights in Germany and Berlin. Several smaller states still object to this clause, but are not expected to cause serious problems.

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Moscow appears willing to go along with a Western request for a disclaimer that the results of the conference are politically, but not legally, binding. Delegates meet again today to try for agreement on remaining issues. And the Soviets will probably renew their demands to set a date in July for the Helsinki summit.

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ARGENTINA

President Peron has won a significant, although probably short-lived, victory in her continuing conflict with labor. The labor leaders pledged to respect the President's authority, temporarily denying the leaders of the Peronist labor confederation the ability to carry out their threat to send their followers into the streets for a final showdown.

The President's unexpectedly strong position has caught the labor leaders off guard. They had apparently assumed that the government would yield easily, but the administration's persuasive economic rationale for overturning recently negotiated massive pay hikes has considerably lessened their ability to act.

At the direction of chief presidential adviser Lopez Rega, the government sought first to undermine the authority of the labor leaders and now seeks to divide the whole labor movement. The administration opposed last week's wage hikes only after many, but by no means all, of the important unions had secured new wage contracts. The government thus set union against union and demonstrated once again to the workers their leaders' inability to deliver.

Against this setting, the Peron administration has come forth with a proposal to increase wages by 80 percent, in installments. This will probably appeal to those workers not yet under contract, but it is angering those who have obtained increases of 100 percent or more. The President has also announced a doubling of certain benefits that apply primarily to workers at the lowest end of the wage scale.

Both the President and Economy Minister Rodrigo, a protege of Lopez Rega, have made tough, well thought out speeches cataloguing the nation's many economic ills, pointing out that austerity is in order and that this administration—the constitutional heir to the magical Peron legacy—is uniquely qualified to deliver it. The stress on legitimacy is designed to discourage military intervention; indeed, most officers are known to favor the maintenance of constitutional rule if at all possible.

In a related move, Lopez Rega has taken another step toward building greater control over the nation's security apparatus. Last week, the government created a new post within the Interior Ministry—that of undersecretary for domestic security—and filled it with a former federal police official. The new official will coordinate all government anti-subversive efforts. The appointment came before the current crisis and could have been designed to give the government an alternative means of dealing with potential labor violence, given the military's unwillingness to intervene against workers and on the side of Lopez Rega.

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If the government wins its contest with labor, the main victor will be Lopez Rega; his mastery of the political situation will then be virtually complete. A fragmented, leaderless labor movement could prove more dangerous in the long run, however, than the recalcitrant, but still relatively disciplined, force that now exists.

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PANAMA

The Panamanian government has become more apprehensive over prospects for an early conclusion of a new Panama Canal treaty. In late June the US House of Representatives voted to deny funds for treaty negotiations—Senate action is still pending. This situation has heightened Panamanian fears of US Congressional negativism toward the conclusion of a new treaty.

The Panamanians have taken prompt action to dampen the repercussions in their country. The government-controlled press has published an official statement by Panamanian national leader General Omar Torrijos, reiterating his faith in the good intentions of the US negotiators and his belief that Washington would honor its commitment to conclude a new agreement. National Guard officials closely monitored activist student groups in the expectation that they would seize the issue and carry out demonstrations against the US and possibly their own government.

The National Guard reacted quickly and effectively on Monday in dealing with leftist student marches on the US embassy and the Panamanian Foreign Ministry. This move demonstrated the Guard's ability to control such incidents and highlights the government's apparent desire to contain the situation and maintain an environment favorable to negotiations. Even so, opposition elements will continue their efforts to exploit any opportunity that would undermine prospects for a new treaty or discredit the General. As a result of these pressures and Torrijos's own desire to move ahead with the treaty talks, further signals to the US that some positive action is needed can be expected.

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INDIA

Prime Minister Gandhi promised something for everyone Tuesday night when she outlined new economic programs—relief for the poor, strong steps against the wealthy, and austerity and hard work for all.

Gandhi focused on relief efforts, hoping no doubt to buy political support. She promised:

- more action against inflation, including credit controls and curbs on government spending;
- vigorous implementation of land reform laws;
- abolition of indentured agricultural labor;
- liquidation of farmers' indebtedness to moneylenders;
- provision of better quality cloth at controlled prices;
- more grain at controlled prices.

Mrs. Gandhi did not say these programs aimed at subsidizing consumption would mesh with government efforts to limit spending. Her plans to increase production are not impressive. They involve plans to expand irrigation and supplies of electrical power and to simplify investment licensing procedures as a sop to private industry.

Gandhi's economic policies are typically long on political considerations and short on wherewithal to accelerate the slow-growing Indian economy. Increased agricultural production is the key to Indian growth, but the Prime Minister offered no new programs aimed at increasing food supplies. Indeed, if she were vigorously to pursue land reform and an end to grain hoarding, she might reduce agricultural production.

India was generally calm yesterday, but trouble is brewing for Gandhi in southern India, particularly in the state of Tamil Nadu, which is ruled by an opposition party. The chief minister, a states' rights advocate and foe of the Prime Minister, refuses to enforce press censorship or to arrest protesters. In neighboring Kerala State, the leading opposition party, the Marxist Communists, is openly critical of Gandhi's emergency moves.

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Mrs. Gandhi, meanwhile, in a speech Tuesday to Ruling Congress Party members of parliament, continued to justify the state of emergency on the grounds that underground organizations are planning widespread sabotage in the country. Her remarks presaged a new ordinance providing the government with even more latitude for arresting and jailing dissenters.

Yesterday, Gandhi affirmed India's interest in improving relations with the US and said she hoped President Ford would visit India this year.

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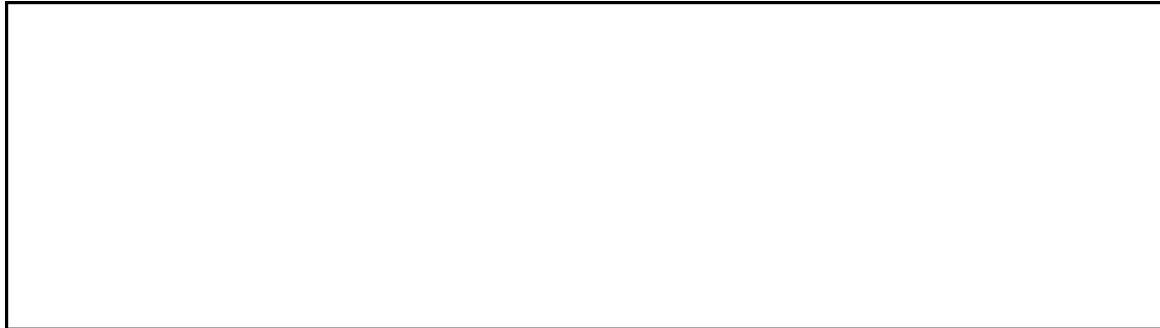
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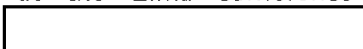
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NORTH KOREA - CHINA

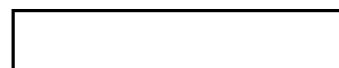
The North Koreans and Chinese are continuing to profess that Pyongyang has no intention of using force to reunify the country. In speeches and commentary marking the 25th anniversary of the Korean war last week, various North Korean spokesmen said flatly that talk about northern invasion plans was "ridiculous." In addition, Foreign Minister Ho Tam recently acknowledged to Australia's Foreign Minister Willesee in Pyongyang that reunification was not an early prospect and that a new Korean war was not likely.

Willesee was given the same message in Peking. Chinese Foreign Minister Chiao Kuan-hua played down Kim Il-song's visit to Peking in April by claiming that it had been planned months in advance and only fortuitously coincided with the collapse of Indochina. Chiao expressed confidence that North Korea would not attack the South. Chinese officials in Europe, at the UN, and elsewhere have emphasized that, although reunification of Korea is a matter for the Korean people to decide, Peking urged a moderate course during Kim's recent visit. Moreover, Chinese propaganda has continued to stress "peaceful" reunification, a line Peking has highlighted since the Kim visit.

North Korean propaganda continues to play some militant themes, but with less prominence since Kim's foreign trip last month. The statement first introduced by Kim Il-song in Peking—that the North would not stand idly by in the event of an uprising in South Korea—still appears, as do warnings that the North will meet any aggression from the US and Seoul with vigorous revolutionary war. But Pyongyang almost certainly recognizes that Kim's threatening tone at the outset of his visit to Peking backfired, insofar as it encouraged a closing of ranks in South Korea—quieting President Pak's political opposition—and prompted strong expressions of support for Seoul by high US officials. The current stress on peaceful intentions is probably also aimed at increasing diplomatic support for North Korea at the Lima conference of nonaligned countries and at the UN this fall.



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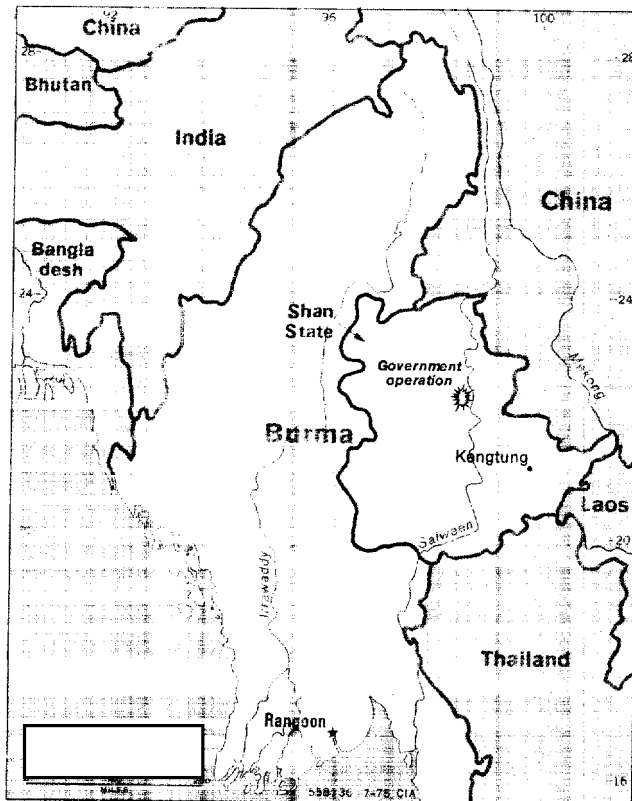
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BURMA

Government forces claim to have killed some 120 communist insurgents during an operation in northern Shan State last week. The government admits that 32 of its own soldiers died in the fighting.

The operation was against communist forces that had crossed the Salween River and were attempting to establish a foothold west of their normal operating area. The government success follows victories earlier this year over communist units to the southeast, near Kengtung.

Burmese officials apparently were encouraged by the lack of response from Peking to the setbacks suffered by the Burmese communists.



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Although the Burmese army currently holds the upper hand, it lacks the capability to wipe out the communists completely.

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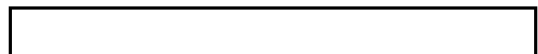
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